

# Monthly Market Report

August 2021



**W**ood fibre as a commodity, sits along side most others routinely traded out of NZ. The market fundamentals remain Ok, just OK, but shipping is nothing short of a basket case.

As a consequence, we have seen over all log prices, move down to about a 65 percentile of the market of the last 12 months. This is taking in to account both domestic and export segments.

We have to remind ourselves, whilst the drop off the very high export prices is significant, they are now sitting at just above the average of the last 12 months. The CFR settlements in China are also very high. It is just shipping throwing the spanner in our works.

In the shipping world, demurrage (time waiting within the hire dates of the Charter Party Agreement) has become the order of the day. Ship owners are either on-charging day rate to charterers for the time waiting to load or discharge or adding it in to the daily hire rate for the Charter.

In NZ, at the likes of Tauranga and Gisborne ports, wait to load times are in the order of 10 – 15 days. At these two ports alone there has consistently been about 30 vessels parked off waiting their turn. For Gisborne mostly log vessels, for Tauranga, all sorts, including container vessels. Other NZ ports are not so bad, but slow load rates due to labour shortages are a frustratingly predominant feature.

At most ports on the China eastern seaboard, the same applies for discharge. A recent report has 1 million cubic metres of logs sitting in vessels held off waiting discharge, over 30 vessels. This is about twice the normal.

There are wide ranging factors at play. Not the least being, COVID playing havoc with available labour. Another is Taicang Port closure which has been a major one for NZ logs. The provincial Government recently decided this port will be containers only and logs excluded. And in China when the Government decides, that doesn't mean we all have lots of public meetings to discuss leadership decision making with consequential delays in progress.

The net impact of all of this is for your standard Handy Class log vessel plying NZ/China, daily hire rates have moved from US\$9,000 per day in October 20 to US\$30,000 per day in August 21.

All commodities are similarly impacted. Across the container trade year on year, NZ inbound/outbound freight rates are up 370%, China to Europe container rates are up 660% and China to the US, up 300%. If you were wondering what this was going to do to the price of your new TV, could I suggest you will not need to do a Google search.

Across our domestic scene, COVID enforced holidays excluded, prices and demand are excellent. The biggest challenge now will be to maintain a log supply as things crank down. Across NZ and before lockdown, we were looking like a 15 – 20% reduction in daily log production. Local sawmills will be feeling the net impact of this by end August unless the pendulum swings dramatically.

The fundamentals in China remain pretty good in terms of utilisation and prices. This is a little surprising signalling the overall market contains robust fundamentals. Important to remember here, the net impacts of COVID lockdowns are a major. Some Ports and Cities are immobilised, many construction sites are either closed and or waiting for raw material supplies.

If we drill down to the key elements, all of this means daily log consumption is good, mid to high 70 thousand cubic metres per day. This is only about 10% below the year-on-year comparative for this time of year. Softwood log inventory remains just under 5 million cubic metres and domestic retail prices for logs has increased through late July, early August, now stable at ¥1,000 per cubic metre.

These market fundamentals likely mean we will see CFR prices, A grade basis, at breakeven for traders, back over US\$170 per JAS in September and in context those prices are very high on a 2-year comparative.

As stated above, shipping is the major and certainly debilitating the net return at wharf gate NZ.

As always People, please remember the thoroughly important message, "It remains, as always, fundamentally important, no matter the challenges, the only way forward for climate, country and the planet, is to get out there and plant more trees"!

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